

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6057

BILL NUMBER: SB 55

NOTE PREPARED: Jan 19, 2006

BILL AMENDED:

SUBJECT: Public Safety Deferred Retirement Option Plan.

FIRST AUTHOR: Sen. Harrison

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill repeals the December 31, 2007, expiration date for the public safety Deferred Retirement Option Plan (DROP). (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2006.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: This proposal affects the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, and the 1953 Police Pension Fund (collectively, the Old Funds) and the 1977 Police Officers' and Firefighters' Pension and Disability Fund (the 1977 Fund).

A DROP is an optional payment form under a defined benefit plan that allows a participant to elect to receive a lump sum in exchange for a reduced monthly benefit.

For the Old Funds, with no change in retirement patterns, a continuation of the DROP will mean an estimated cost of \$25.6 M. For the 1977 Fund, with no change in retirement patterns, a continuation of the DROP will be actuarially neutral.

The cost for the Old Funds arises because those funds have few members who could now enter the DROP with fewer than 32 years of service. Members with less than 32 years of service entering the DROP are actuarially

favorable, while those entering the DROP after earning 32 years of service are actuarially unfavorable.

In the 1977 Fund, those two classes of DROP members offset each other. The 1977 Fund saves money when a member enters the DROP before the member completes 32 years of service. About six of ten members eligible for the DROP enter the DROP.

[Additional information is available from the Office of Fiscal and Management Analysis.]

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 Fund.

Local Agencies Affected: Those with members in the Old Funds and the 1977 Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the Police and Fire Funds, 317- 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.